

Message Text

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INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-06
CEA-01 DODE-00 PM-05 H-01 L-03 PA-01 PRS-01 /091 W
-----119666 241705Z /45

R 241543Z JAN 78
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 4664
INFO AMEMBASSY ABU DHABI
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
USLO RIYADH

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E. O. 11652: N/A
TAGS: EFIN, EAID, EG
SUBJ: FUTURE GODE OPERATIONS

REF: CAIRO 1666 (NOTAL)

1. SUMMARY: USEFUL DISCUSSIONS WITH MORGAN STANLEY REPS
ON GODE OPERATIONS AND POSSIBLE REPLENISHMENT REVEALED
THAT ADDITIONAL GODE ASSISTANCE PROBABLE IN 1978 BUT
LEVELS YET UNCLEAR. ACCORDING SOURCES, MECHANISM ESTAB-
LISHED THROUGH FEDERAL RESERVE NEW YORK IS WORKING WELL
AND ENTIRE SECOND TRANCHE SHOULD BE DISBURSED DURING
FIRST QUARTER 19. GODE STAFF IN RIYADH EXPANDING,
ALTHOUGH PLANS TO OPEN CAIRO BUREAU ABANDONED AT PRESENT.
END SUMMARY.

2. EXTENDED CONVERSATION JANUARY 20 BETWEEN EMBOFFS AND
MORGAN STANLEY OFFICIALS, INCLUDING VP RICHARD DEBS,
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CLARIFIED CERTAIN ASPECTS OF PRESENT GOE/GODE ARRANGE-
MENTS AND FUTURE GODE OPERATIONS. MORGAN STANLEY PLANS
TO PLACE BANK REPRESENTATIVE IN CAIRO TO SERVE AS LOCAL
GODE CONTACT. ACCORDING THEIR BEST ESTIMATES, GODE WILL
CONTINUE ASSISTANCE TO EGYPT, BASICALLY COVERING IMPORTS
OF SPECIFIED COMMODITIES, BUT NOT AT 1977 LEVEL.

3. ON TRANSFER MECHANISM THROUGH NEW YORK FEDERAL RESERVE, DEBS OUTLINED SAME PROCEDURE SCHEME COMMENTED ON BY IBRD'S IKRAM (SEE REFTTEL) AND ADMITTED THERE HAS BEEN SOME SLOWNESS IN REPLENISHMENT, ALTHOUGH NOT OF A SERIOUS NATURE. NORMALLY GOE HAS LIST OF ELIGIBLE PURCHASES PREPARED FOR EACH \$50 MILLION DEPOSIT. THUS, MONIES ARE FREQUENTLY EXPENDED ALMOST AS SOON AS TRANSFER EFFECTIVE. GIVEN TIME CHANGE BETWEEN RIYADH AND NEW YORK, COMPLICATED BY EXTENDED SAUDI AND U. S. WEEKEND PERIOD AND FACT THAT GODE MUST CANVASS GODE MEMBERSHIP (MINUS QATAR) FOR QUOTA ON EACH TRANSACTION, FUND REPLENISHMENT OFTEN TAKES 5 - 10 DAYS. THESE HAVE LED TO GODE COMPLAINTS REPORTED BY IKRAM. DESPITE DELAYS, AT PRESENT UTILIZATION RATE MORGAN STANLEY EXPECTS SECOND TRANCHE TO BE FULLY EXPENDED BY LATE MARCH OR EARLY APRIL.

4. DEBS, WHO WAS ACCOMPANIED BY BANK OFFICER AHMED FODA (SLATED TO BE MORGAN STANLEY'S CAIRO CONTACT), REITERATED GODE'S POSITION ON CASH ASSISTANCE. ARAB DONORS (LIKE EVERYONE ELSE) FAVOR HIGH VISIBILITY OPERATION THROUGH PROJECTS AND/OR CAPITAL ASSISTANCE. GODE, HOWEVER, HAS ACCEPTED FOR PRESENT RATIONALE THAT GOE NEEDS SOME MEANS OF SUSTAINING HIGH IMPORT LEVELS, PARTICULARLY IN CAPITAL AND INTERMEDIATE GOODS, TO STABILIZE ECONOMY AND TAKE NEW ECONOMIC DIRECTIONS. AS RESULT GODE MANAGING DIRECTOR DUKHAIL AND STAFF HAVE, AT LEAST UNTIL NOW, CONVINCED LIMITED OFFICIAL USE

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MEMBER FINANCE MINISTERS THAT IMPORT PROGRAM ASSISTANCE IS BEST COMPROMISE.

5. DEBS EMPHASIZED THAT THERE IS NO FIRM COMMITMENT TO DATE BY GODE MEMBERS ON POSSIBLE 1978 REPLENISHMENT. PARTICIPANTS, HOWEVER, HAVE REACHED INFORMAL CONSENSUS THAT SOME LEVEL OF ANNUAL REPLENISHMENT SHOULD BE FORTH-COMING. HE BELIEVES 1978 FIGURE MAY RANGE BETWEEN \$800 MILLION TO \$1 BILLION--A SUBSTANTIAL SUM BUT FAR FROM LEVEL OF 1977 GODE AID.

6. MORGAN STANLEY VP, WHILE CONCEDING 1977 SAW SOME IMPROVEMENTS TO EGYPTIAN INTERNAL FISCAL MANAGEMENT AND BUDGET CONTROL, STRESSED EXISTING SYSTEM STILL DEMANDS RESTRUCTURING AND TIGHTENING. DEBS BELIEVES THAT POTENTIAL FOR GOE PUBLIC SECTOR COMPANIES TO RESORT TO COMMERCIAL MONEY MARKETS WITHOUT BUDGETARY AUTHORITY APPROVAL STILL EXISTS. PRESENT AVAILABILITY OF READY CASH MEANS GOVT AGENCIES DO NOT HAVE TO REVERT TO THIS PRACTICE; IN LIQUIDITY CRUNCH, HOWEVER, DEBS PREDICTS PRESSURES WILL FORCE FINANCIALLY-VIABLE GOE OPERATIONS BACK TO COMMERCIAL BANKERS. CONTROLS ARE SO WEAK AND IMPERFECT THAT PRESENT

GOE SYSTEM COULD NOT PREVENT EXTRA-BUDGETARY BORROWINGS AND CONSEQUENTLY, ANOTHER BUILDUP OF SHORT-TERM OBLIGATIONS MORGAN STANLEY BELIEVES IBRD CONSULTATIVE GROUP, OR SOME OTHER APPROPRIATE DONOR FORUM, SHOULD HIT DEBT MANAGEMENT POLICY HARD IN NEXT FEW MONTHS. MORGAN STANLEY REPS CONVEYED THEIR IMPRESSION THAT NEED IS URGENT AND PRESSURE REQUIRED TO MAKE GOE ESTABLISH STRICT DEBT/BUDGET CONTROLS. SAUDIS AND KUWAITIS, ACCORDING SOURCE, ARE ALSO CONCERNED ABOUT THIS ASPECT OF INTERNAL ECONOMIC MANAGEMENT. RESULT OF APPARENT LACK OF GOE INTEREST IN PROPER MANAGEMENT IS FIRM GODE OPPOSITION TO FURTHER CASH ASSISTANCE. IF EGYPTIANS UNWILLING TO ESTABLISH PRIORITIES, GULF DONORS

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WILL TAKE INITIATIVE AND DO IT FOR THEM TO EXTENT THEY CONTROL ACTUAL EXPENDITURE OF GULF MONIES, ACCORDING DEBS.

7. ONE RESULT OF GODE'S GROWING IMPORTANCE AS AID DONOR, DEBS COMMENTED, IS AN EXPANDED BUREAUCRACY IN RIYADH. MORGAN STANLEY COUNSELED DUKHAIL AGAINST GODE OPENING A CAIRO OFFICE (WITH MORE STAFF, EQUIPMENT, EXPENSE ACCOUNTS, ETC.) AND DECISION WAS MADE THAT MORGAN STANLEY, WITH ONE BANK OFFICIAL, WOULD FUNCTION SOLELY AS GOE/GODE CONTACT POINT HERE. DEBS INDICATED, HOWEVER, THAT AS GODE'S FUTURE ROLE DEVELOPS THERE MAY BE RENEWED INTEREST IN A LOCAL OFFICE. MORGAN STANLEY MAY RAISE LEVEL OF

ITS REPRESENTATION TO FUNCTIONING BANKING OFFICE AT LATER
DATE IF BUSINESS PROSPECTS WARRANT. EILTS

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